

## Bernanke warns that economic isolationism would harm U.S. economy

by AP-News

WASHINGTON — A move to protect threatened American industries and workers from foreign competition would be a serious mistake that would jeopardize the sizable benefits of free trade, Federal Reserve Chairman Ben Bernanke said Tuesday. "Restricting trade by imposing tariffs, quotas and other barriers is exactly the wrong thing to do," Bernanke said in remarks to an audience at Montana Tech in Butte, Mont.

"In the long run, economic isolationism and retreat from international competition would inexorably lead to lower productivity for U.S. firms and lower living standards for U.S. consumers," Bernanke said. As America's trade deficits have soared, Congress and the Bush administration have come under increased political pressure to erect trade barriers against a flood of imports that critics contend have contributed to the loss of more than 3 million manufacturing jobs since 2001. The Fed chairman said that restricting imports might temporarily slow job losses in affected industries, but those benefits would be outweighed many times over by the costs, which would include higher prices for consumers and increased costs, and thus reduced competitiveness, for U.S. firms. "The better approach to dealing with job losses in such industries as textiles, which have been hurt by foreign imports, is to improve government retraining programs, Bernanke said. He said it was important to also improve the quality of education that future workers receive so they will be prepared for the jobs of tomorrow.

The debate on trade has intensified this year with Democrats taking control of both the House and Senate after the 2006 elections in which many Democrats attacked President Bush's free trade policies. They contended the administration has failed to protect American workers from unfair foreign competition from low-wage nations such as China. The U.S. trade deficit hit \$765.3 billion in 2006, the fifth consecutive record, with the imbalance with China rising to \$232.5 billion, the largest imbalance ever recorded with a single country. Bernanke made no comments during his appearance about the current state of the economy. Fed officials will meet next week and are expected to keep interest rates unchanged. Responding to questions from Sen. Max Baucus, D-Mont., Bernanke said the real reason for the U.S. trade deficit was that Americans save less and spend more in contrast to a country like China with a high savings rate which depends on export-led growth. Bernanke said that interest rates remain very low in the United States because of the continued flood of foreign investment into the country. But he said this will not always be the case and "that is why it is important to work on increasing our savings rate." In his remarks, Bernanke sought to allay fears that service sector jobs, where more than 80 percent of Americans work, could be "outsourced" to other nations, causing massive job losses in this country. He said those concerns were not justified because closeness to customers and knowledge of local conditions would remain critical factors for many service jobs. The Bush administration, hoping to ward off a protectionist backlash in Congress, has increased pressure on China, imposing tariffs in a dispute involving glossy paper and filing two trade cases against China before the World Trade Organization. Treasury Secretary Henry Paulson will host the second meeting of his new "Strategic Economic Dialogue" with top Chinese officials in Washington on May 23-24, a forum he is hoping will convince Beijing to move more quickly to allow its currency to rise in value against the dollar. American manufacturers say this is needed to boost their sales in China. Trade Adjustment Assistance, the federal program to help workers who lose jobs to foreign competition, is up for renewal in Congress this year. Bernanke mentioned various changes being considered such as providing wage insurance to people who lose

jobs and making health insurance portable, but he said Congress would have to decide what changes were needed.

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